



County of Los Angeles  
**CHIEF ADMINISTRATIVE OFFICE**

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DAVID E. JANSSEN  
Chief Administrative Officer

August 9, 2005

To: Supervisor Gloria Molina, Chair  
Supervisor Yvonne B. Burke  
Supervisor Zev Yaroslavsky  
Supervisor Don Knabe  
Supervisor Michael D. Antonovich

From: David E. Janssen  
Chief Administrative Officer

Board of Supervisors  
GLORIA MOLINA  
First District

YVONNE B. BURKE  
Second District

ZEV YAROSLAVSKY  
Third District

DON KNABE  
Fourth District

MICHAEL D. ANTONOVICH  
Fifth District

**E-COMMERCE STATUS REPORT**

This is the third report on the progress of the E-Commerce Taskforce in response to the Board's November 16, 2004 motion. This report provides a status on the interim replacement solution for credit card processing, the solicitation document to select a vendor that will allow departments to accept credit/debit card payments via the internet, the checklist to implement E-Commerce, the County's cost neutrality policy, and the Department of Animal Care and Control's pet renewal license program.

Also, as reported on the second progress report in March 2005, a Request for Proposal (RFP) was deemed advantageous as compared to a Request for Information to more quickly facilitate E-Commerce applications.

**Interim Replacement Solution for Credit Card Processing**

The County's agreement with Paymentech for E-Commerce credit card processing expired on June 30, 2005. To ensure continuity of the E-Commerce credit card processing services provided by Paymentech for the Department of Coroner and the Department of Public Works, the Treasurer and Tax Collector (TTC) executed a subscription agreement with the State to transfer the E-Commerce credit card processing to the State's Master Services Agreement with Paymentech, effective July 1, 2005. Paymentech has assured the TTC that there will be no interruption in service.

### **Solicitation Document Update**

A RFP for electronic payment and credit/debit card processing was issued by the Internal Services Department (ISD) on May 18, 2005. The Notice of RFP availability was emailed to 52 firms and posted on the County's "How to Do Business Website". A total of 12 proposals were received on June 28, 2005, and 11 of the proposals were accepted for evaluation. One proposal was determined to be non-responsive and will not be evaluated.

An Evaluation Committee comprised of representatives from the ISD, TTC, and Chief Information Office (CIO) has been formed and is currently evaluating the proposals based on criteria stated in the RFP. It is estimated that the evaluation will be completed during August and that a vendor will be recommended to the Board this Fall. The selected vendor will provide E-Commerce related payment services and bill for services on a per transaction basis.

### **Checklist to Implement E-Commerce**

In order to appropriately implement an E-Commerce application, the following steps must also be completed by the department:

**Completion of Readiness Checklists** - To help County departments implement their E-Commerce applications, the Taskforce is developing a County website to provide a checklist for E-Commerce implementation. The Checklist will provide departments with the steps necessary for implementation of an E-Commerce application, provide links to sample forms, letters, procedures and other information required for an E-Commerce implementation.

**Assessment of Departmental Processes and Procedures** - Prior to initiating an E-Commerce initiative, County departments need to assess their current business processes and procedures to determine their readiness to conduct E-Commerce. Common areas to review include whether:

- The department has the staff and resources to create its website and to build the interface between the website and the E-Commerce vendor;
- The department's backend computing systems have the ability to retrieve, format and store information necessary to conduct E-Commerce transactions and to update their internal records to reflect these transactions; and

- The department has staff and resources to perform all the tasks identified to implement E-Commerce applications.

ISD is prepared to assist departments that may need resources beyond their existing staff when developing E-Commerce applications. ISD will contact the customer departments to determine if ISD can assist in developing the web application either through using ISD's own staff or through contract resources using the Information Technology Support Services Master Agreement (ITSSMA). Also, CIO's Information Technology Infrastructure Fund may be available to fund one-time start-up application costs.

### **Cost Neutrality Policy**

On the November 16, 2004 motion, your Board also instructed the Taskforce to provide an analysis of the County's cost neutrality policy.

As noted in our previous status reports, one of the major issues facing departments that want to move forward with E-Commerce initiatives is the County's policy requiring credit/debit card applications to be cost neutral. The requirement that credit/debit card applications be cost neutral has limited the ability of County departments to implement credit/debit card applications and E-Commerce.

The Taskforce has reviewed the County's cost neutrality policy and the approaches used by other jurisdictions. Our review disclosed that most jurisdictions either include the credit/debit card and other application costs in customer fees or allow departments to absorb the costs. These approaches allow government agencies to treat credit/debit card fees and other E-Commerce costs as costs of doing business. We also noted that California Government code allows State agencies to accept credit cards, regardless of cost effectiveness, if the additional level of customer service offered by these payment methods outweighs cost considerations.

The E-Commerce Taskforce is therefore recommending that the Board revise the County's policy on cost neutrality to allow departments to either include credit/debit card transaction costs and other application costs in the fees charged to customers or to absorb the costs in their budgets when there is a reasonable business case to do so. Attachment I provides a detailed discussion of the cost neutrality issue and our recommendation. Revising the policy will allow more departments to increase acceptance of credit/debit cards and improve customer services by reducing waiting times and increasing payment options.

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The Auditor-Controller (A-C) with the concurrence of the Taskforce will submit their recommendations for revising the County's cost neutrality policy for Board consideration by this Fall.

#### **Department of Animal Care and Control's Pet Renewal License Program**

The Department of Animal Care and Control (DACC) is working to provide pet owners with the opportunity to renew pet licenses online from the Department's website. The project team includes ISD, County Counsel, and CIO, along with participation from the A-C and TTC. Funding for this project is through a grant from the Information Technology Infrastructure Fund. The DACC is working with the A-C to determine whether the program will comply with the cost neutrality policy. The DACC, project implementation team, and the E-Commerce Taskforce agree that a more prudent business decision is to implement this application when the County has selected the electronic payment vendor. This will ensure that DACC would not have to pay for security assessment costs twice, once for an interim vendor and again when a Countywide vendor is selected. The DACC will coordinate with the E-Commerce Taskforce to ensure that its project direction and schedule are in alignment with the Taskforce's efforts to replace the County's current centralized E-Commerce infrastructure.

Please feel free to call me, or your staff may contact Chiu Lee at (213) 974-1261 if you have any questions.

DEJ:DL:ADC  
CL:lbm

Attachment

c: Executive Officer, Board of Supervisors  
County Counsel  
Auditor-Controller  
Chief information Officer  
Internal Services Department  
Treasurer and Tax Collector

ecommerce.bl

## COUNTY COST NEUTRALITY POLICY AND E-COMMERCE

### Current County Cost Neutrality Policy

In 1998, the Board of Supervisors (Board) adopted a policy requiring that acceptance of credit/debit cards by County departments be cost neutral to the County. The Auditor-Controller (A-C) was instructed to review and verify the cost neutrality of proposed credit/debit card applications and review the departments' accounting controls prior to implementation.

Credit/debit card issuers typically (Visa, MasterCard, Discover, etc.) charge fees of approximately two to three percent for transactions using their cards. In addition, accepting credit cards on-line requires departments to incur costs to develop the E-Commerce applications (e.g., programs to record customer orders, credit card information, etc.). As a result, accepting credit/debit cards can only be cost neutral if County departments can identify reductions in cost or increases in revenue from accepting the cards. The A-C has approved the cost neutrality of a limited number of credit/debit card applications, mostly for over-the-counter transactions. However, during the last several years, departments have generally not pursued new credit/debit card applications because of the difficulty in achieving and documenting cost neutrality and the cost of developing the E-Commerce application.

### Alternatives to the Cost Neutrality Policy

Because the current cost neutrality policy appears to be an obstacle to expanding E-Commerce applications in the County, the E-Commerce Taskforce has identified and evaluated alternatives to the current policy. The following is a description of the approaches considered by the Committee and our evaluation of each.

#### A. Charge a convenience fee to customers who use credit cards

Under this approach, business and government agencies that accept credit/debit cards may in certain conditions charge the cardholder a convenience fee. The application must provide a convenience to the cardholder. Applications that allow a cardholder to request a credit card payment through the use of a voice interactive, internet or similar communication system from their home or office would qualify. Examples of such applications where a convenience fee may be assessed include: purchase of movie and theater tickets via the Internet; payment of Federal incomes taxes using the Internet; and the County's voice activation telephone system to accept credit cards for property tax payments.

Charging a convenience fee has the advantage of ensuring that the cost of using the card is entirely paid by the card user only. However, our contacts with other government agencies indicates that most of them do not charge convenience fees. In addition, some agencies that have charged convenience fees have found that

they discourage the use of E-Commerce applications. For example, the California Department of Motor Vehicles (DMV) initially charged a \$4.00 convenience fee for internet/telephone transactions. When the DMV eliminated the fee, the volume of internet/phone transactions doubled over the comparable periods in the prior year.

**B. Include the cost of credit/debit card costs in the fees charged to customers**

Under this approach, departments would project their credit/debit card fees and application costs, and include those costs when developing their fees along with other costs (e.g., operational salaries, services and supplies, etc.).

This approach would result in a very small increase in fees to all customers, regardless of whether they use credit/debit cards, mail in a check/money order or pay with cash. For example, if a department had a \$100.00 fee for a service and projected that 50 percent of their customers would use credit/debit cards with a 2.5 percent fee, the department's fee would increase to approximately \$101.25, plus the prorated cost of the E-Commerce application. This is the practice in retail stores, restaurants, travel merchants, and other businesses where all customers pay the same prices, regardless of whether they pay by cash or by credit/debit cards. Departments may be able to offset the fee increase if they can achieve revenue increases or cost reductions from using the cards.

**C. Allow departments to absorb the credit/debit card fees in their existing budget**

Under this approach, departments would not include the cost of credit/debit card fees and the cost of the E-Commerce applications they pay in their rates. These costs would be absorbed by the departments within their existing budgets. This would allow departments to make a business decision to accept credit/debit cards and develop E-Commerce applications without passing the cost along to their customers. Again, departments may be able to offset some or all of the cost increase if they can achieve revenue increases or cost reductions from using the cards.

**Conclusion**

To encourage County departments to actively pursue E-Commerce applications, the E-Commerce Taskforce recommends that the County's cost neutrality policy be revised to allow departments to meet the cost neutrality requirement by either including the cost of credit/debit card fees and application costs in the fees charged to all customers or by absorbing the fees/costs in their existing budget when there is a reasonable business case for the change. The benefit(s) of the approach used should be periodically reevaluated. These approaches are consistent with most other government jurisdictions we surveyed and will meet the Board's goal of expanding E-Commerce applications.

This policy will only apply to fees charged by departments that are established by the Board. It will not apply to fees collected by the County that are passed along to other

agencies or where the amount of credit/debit card fees and/or application costs would result in a significant cost to the County. Specifically, this policy will not apply to payments of County property taxes including direct assessments, bonded indebtedness, etc. Taxpayers who wish to use credit/debit cards for property taxes will continue to be referred to a third-party vendor that charges a convenience fee.

To ensure that the revised policy is applied appropriately, departments wishing to develop E-Commerce applications and/or accept credit/debit cards will be required to submit proposals for review by the A-C and CAO, and explain the basis for the business decision and how the costs/fees will be passed along or absorbed within the department's budget with no significant impact on existing operations. The A-C and CAO will ensure that the proposed use of credit/debit cards is reasonable and will not result in excessive fee increases or costs to the County.

It should be noted that allowing departments to include the credit/debit card costs in their fees and/or absorbing the fees within their existing budgets will also allow departments to expand acceptance of credit cards for over-the-counter transactions. Because of the cost neutrality policy, departments have been limited in their ability to accept credit/debit cards over-the-counter. Revising the policy should allow more departments to increase acceptance of credit/debit cards, improve customer service by reducing waiting times and increasing payment options, and minimize payment collection difficulties.

In addition, should departments identify E-Commerce applications that cannot meet the revised cost neutrality policy but merit considerations, the department may request that the CAO and A-C recommend to the Board approval for implementation based on special conditions.